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10 DOWNING STREET

From the Private Secretary

6 October 1983

Dear John

Long-term public expenditure

The Chancellor of the Exchequer discussed long-term public expenditure with the Prime Minister at his meeting today. As reported in Michael Scholar's letter of 27 September she did not want to circulate a minute to colleagues on this subject. She would be devoting a section of her Party Conference speech to this which could be the text upon which further Ministerial statements could be based.

The Prime Minister has now seen the speaking note whose text we have agreed between us and she will be using it as a quarry. I attach a copy of the final version.

Yours sincerely

Andrew

John Kerr, Esq.,
H.M. Treasury.

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DRAFT SPEAKING NOTE FOR THE PRIME MINISTER ON PUBLIC EXPENDITURE

We are at the moment in the middle of our public expenditure review. Every year at this time all governments - Labour and Conservative alike - carry out these reviews. We look at the cost of the government's existing spending programmes, the likely new demands, and the possibilities for savings. You will not be surprised to hear that such a re-appraisal is for the government - as its equivalent is for every family - a painful but necessary process.

This government's aim is to maintain a firm control of public spending. It is vital that we succeed, to create more room for reducing taxes on families and businesses; and to cut government borrowing further - so as to bring inflation down still lower.

We fought the election on this premise. I said then, and have said many times since, that we published our public spending plans, at Budget-time earlier this year, and we intend to stick to them. I mean just that.

That means that we will read a great deal in the newspapers, and hear much on television and radio, about cuts, cuts and more cuts. To stick to our published spending total we will need to rein back in some areas, to make room for inevitable or desirable increases in other areas. So you will hear a great

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deal from those whose programmes are being trimmed back: they will try to mobilise public opinion to the view that their programme is sacrosanct . The media will be ready listeners to their special pleading. Our job in government is to reconcile the conflicting claims: to recognise that spending increases in some areas are inevitable and right; that reductions in other areas are, similarly, inevitable and right; and that sticking to our spending totals is paramount and over-riding.

The media publish so much about what they call cuts that they have created the impression in Britain today that this government has, since 1979, systematically and consistently cut public expenditure. The truth is the opposite. Public spending is now about 6% higher than it was in 1979, after allowing for inflation since then. Of course, within the rising total, some programmes have risen faster than others; and some have actually fallen. But let no-one be misled by all the pressure groups: public spending has risen, not fallen.

The government claims no credit for this. Higher public spending has meant an increase in the burden of taxation, when our objective is to reduce it. Spending has risen mainly because pensions and health costs have risen faster than anyone expected; and because the severity of the world recession and the growth of unemployment has added to the costs of the social security programme. We have honoured our commitments to give priority to defence and law and order. In addition, there are constant bids for more and more expenditure - bids which, in the main, we necessarily reject, as we rejected, in 1979 and 1983, Labour's hopelessly unrealistic spending plans for the years ahead.

So much for the immediate past. If we go further back we see that twenty-five years ago public spending represented about one third of our GDP. By the end of the 1970s this figure was between 40% and 45%. We are determined to bring to a halt this creeping encroachment of the public sector over a wider and wider area of our national economy. We intend

- to look for savings wherever we can find them
 - by rooting out waste and inefficiency in the public sector;
 - by securing the cost savings which new technology and higher productivity can generate;
- to ask ourselves of every spending programme whether what is done has to be done
 - if so, whether it has to be done in the public sector;
 - if so, whether it has to be financed by the taxpayer.

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Getting a firm grip on public spending in this way is not, as our opponents argue, callousness. It is sheer common-sense. Indeed, it is vital to our prosperity as a nation. For there is only one ultimate source of finance for public spending - taxation. And we in Britain already pay far too much tax. Let me give you an illustration of the dramatic growth in the ordinary person's tax burden: in 1950-51, the married man on $\frac{3}{4}$ average earnings paid 8% of his earnings in tax and national insurance contributions. Today that figure is 27%. The more hard-earned wages and salaries are taxed, the less incentive people have to earn more; the bigger the millstone around the necks of enterprising individuals; the more destructive the brake upon industrial performance - and, ultimately, upon the prospects for new jobs in Britain.

We must decisively break into the vicious circle of ever higher spending leading to ever higher taxes and to an ever more sluggish and less responsive economy. To do this we must maintain firm control of expenditure. We are determined to do so.